

FISCAL NOTE

HB 2050 - SB 2149

March 7, 2005

SUMMARY OF BILL: Amends multiple sections of the Tobacco Tax Law; defines specific terms related to cigarette and tobacco manufacturing, distribution, and sales; authorizes taxation and establishes resulting tax rates on dealers, distributors, importers, and consumers of cigarettes and other tobacco products; imposes restrictions on the long distance sales of cigarettes and tobacco products; adds three new license requirements for cigarette manufacturers, importers, and distributors; requires manufacturers, importers, dealers, and distributors to keep specific records documenting that all Tobacco Tax Laws have been adhered to; identifies areas of empowerment and enforcement options for the Department of Revenue (DOR) and other state enforcement agencies relating to the adherence of Tobacco Tax laws; identifies various felony and misdemeanor offenses, with resulting penalties and fines, for violation of Tobacco Tax Laws.

ESTIMATED FISCAL IMPACT:

**Increase State Expenditures - \$290,000 Recurring
\$247,000 One-Time
\$ 10,500/Incarceration***

Other Fiscal Impact – The bill will create a fiscal impact to state and local government revenues that is dependent upon Tobacco Tax Law compliance and the extent to which Internet or mail-order sales replace traditional sales. To the extent compliance is high and transactions are executed by traditional means, state and local government revenues could increase by an amount considered not significant. To the extent that compliance is low and more transactions are executed via Internet or mail order, state and local government revenues could decrease up to \$1.35 million and \$400,000 respectively.

Assumptions:

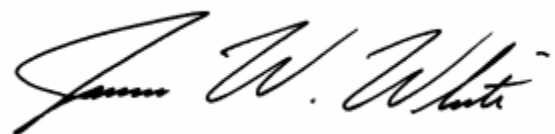
- Increased expenditures for incarceration of \$10,500 per year due to incremental felony convictions of Tobacco Tax Laws associated with the passage of this bill.
- Six new positions in the DOR (three in Taxpayer Services and three in Special Investigations).

- One-time state expenditures to be used for computer programming and software modifications in the DOR are estimated at \$147,000.
- Estimated increase in state expenditures associated with six new DOR positions are \$290,000 per year.
- One-time expenditures to be used for office setup, supplies, travel, materials, and equipment for six new DOR positions is estimated at \$100,000. The majority of this would be for three *Special Agents 2* positions.
- According to the DOR, the impact to state revenues associated with the enactment of this bill is dependent on seller and consumer compliance and the extent to which retailers and consumers execute sales via Internet or mail-order.
- To the extent tax compliance is high; DOR estimates an increase in revenues that is not significant. To the extent tax compliance is low; DOR estimates a decrease in excise tax revenue collections that could exceed \$100,000 per year.
- To the extent internet and mail-order transactions are utilized more frequently, state and local sales taxes could decrease.
- State and local sales tax collection estimated at \$164.6 million for FY2004.
- One percent of traditional sales are made via Internet or mail-order.
- Estimated decrease in state and local sales taxes is estimated at \$1.65 million (\$1.25 million for state and \$400,000 for local governments = \$1.65 million).

**Section 9-6-119, TCA, requires that: For any law enacted after July 1, 1986, which results in a net increase in periods of imprisonment in state facilities, there shall be appropriated from recurring revenues the estimated operating cost of such law.*

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director